



Market Research

Report Date: 8/3/2005
Expires: 5/28/2006

The Equipment and Services Market for Exploration, Production and Distribution of Oil and Gas

Summary

This sub-sector analysis report provides information regarding the market for equipment and services that are used in the exploration, production and distribution of oil and gas. A partial list of Harmonized System codes included in this report appear on pages 5 and 6.

Contact Information

Contact:	Francisco Ceron
Address:	U.S. Trade Center 31 Liverpool, Col. Juarez 06600 Mexico, D.F.
Phone:	(52-55) 5140 - 2600
Fax:	(52-55) 5546 - 0120
Contact Email:	Franciso.Ceron@mail.doc.gov
Contact URL:	http://www.buyusa.gov/mexico

For additional information regarding market research specific to your products and services, ask about our **Customized Market Research (CMR)** program by contacting us at **1-800-USA-TRAD(E)** or www.export.gov.

To the best of our knowledge, the information contained in this report is accurate as of the date published. However, **The Department of Commerce** does not take responsibility for actions readers may take based on the information contained herein. Readers should always conduct their own due diligence before entering into business ventures or other commercial arrangements. **The Department of Commerce** can assist companies in these endeavors.

The Equipment and Services Market for Exploration Production and Distribution of Oil and Gas

Summary

This sub-sector analysis report provides information regarding the market for equipment and services that are used in the exploration, production and distribution of oil and gas. A partial list of Harmonized System codes included in this report appear on pages 5 and 6.

The total market in 2004 for the exploration, production and distribution of oil and gas was USD 4.2 billion. It is expected that the total market will increase to USD 4.7 billion by the end of 2005. The total market is expected to continue growing at an average annual growth of 11.0 percent from 2005 to 2006.

The market is becoming more competitive, especially due to efforts by companies from Korea, Taiwan, Canada, Spain, and other countries

Market Overview

Since 1938, Mexico's Government Owned Petroleum Company (Pemex) has the monopoly as the producer of crude oil and natural gas in the country. At the end of 2004, Mexico was considered number 8 in the world as an oil producer and number 36 in natural gas proven reserves.

At the end of 2004, Pemex had 330 production sites; 4,500 exploration wells; 187 marine platforms; 12 natural gas processing plants; a total of 57,000 kilometers of oil and natural gas pipelines (45,000 kilometers of oil pipelines and 12,000 kilometers of natural gas pipelines); produced 3.2 million barrels per day (mbpd) of crude oil and processed 4 billion cubic feet of natural gas.

Pemex's crude oil and natural gas pipelines system cover the following 18 Mexican states: Chiapas, Veracruz, Tabasco, Tamaulipas, Nuevo Leon, Coahuila, Durango, Chihuahua, Puebla, Tlaxcala, Hidalgo, Mexico, Queretaro, Guanajuato, San Luis Potosi, Michoacan, Campeche, and Jalisco.

Crude oil exploration and production takes place in the Cantarell region (Southeast area of the Gulf of Mexico in the Campeche Sound), which is considered to be the most important oil producing region of the country.

With regards to natural gas exploration and production, Pemex initiated in 2003 a project located in the Burgos basin (in the North of the States of Tamaulipas, Nuevo Leon, and Coahuila) which is considered the most important in the country. Seven blocks were awarded to private companies during the first and second round of tenders from 2003 to the first quarter of 2005.

Also, at the end of 2004 Mexico had 10 interconnections with U.S. gas pipelines that were supplying daily over 800 million cubic feet of natural gas to the Mexican states of Coahuila, Chihuahua, Tamaulipas, and Sonora.

The Equipment and Services Market for Exploration Production and Distribution of Oil and Gas

Market Trends

The market for the exploration, production and distribution equipment and services for the oil and gas industry is expected to grow at an average of 11 percent during the next two years, due to the priorities set by Pemex and private companies.

It is estimated by Pemex that USD 10 billion annually will be invested during the next two years in various priority projects and over 80 percent of the total will be in the exploration of on and offshore oil and gas projects, construction of 13 new offshore platforms and construction of over 400 new kilometers of oil pipelines and 200 kilometers of natural gas pipelines.

Private companies participating in the natural gas market under the "Multiple Services Contracts" (MSCs) will invest over USD 9 billion during the next two years in the Burgos Basin in the exploration of 4,000 wells and building of 650 kilometers of pipelines for the distribution of natural gas.

Import Market

The figures in the table 1 show that the total market size for exploration, production and distribution of oil and gas equipment and services will increase from USD 4.2 billion in 2004 to USD 4.7 billion by the end of 2005. According to the Secretariat of Energy-SENER officials, 65 percent of the market for equipment and services will be demanded by Pemex and 35 percent by private companies.

Total imports will grow at an average of 12 percent annually from 2005 to 2006. The growth is higher compared to the 2003 to 2004 period, which averaged 11 percent.

Statistical Data

Table 1

The Exploration, Production and Distribution of Oil and Gas Equipment and Services Market
(USD Millions)

	2003	2004	2005 Estimate *	2005-2006 Growth rate
Import Market	3,100.0	3,441.0	3,853.9	12%
Local Production	1,200.0	1,260.0	1,348.2	6%
Exports	420.0	445.2	467.5	5%
Total Market	3,880.0	4,255.8	4,734.6	11%
Imports from U.S.	1,798.0	2,030.2	2,273.8	11%

* The 2005 estimate is a projection of data available to May 2005.

Exchange Rates: 1 USD = 10.50

Sources: Statistics from the Mexican Import and Export Bank (Bancomext); Secretariat of Economy (Secretaria de Economia); interviews with SENER and Pemex officials private sector end-users and distributors of equipment and services for the oil and gas industry

Best Prospects

According to the research conducted, below is a short list of the products and services that will be most in demand between 2005 to 2006.

PRODUCTS:

Pipe for oil and gas of iron or carbon steel; boiler piping; welded pipe for oil and gas; cast iron pipe fittings; nozzles; elbows, bends and couplings; water tube boilers; rotational pumps; ejectors; compressors; generators; fuel burners; heat exchangers; gas valves; security valves; retention valves; diaphragm valves; flow meters; gas analyzers; gas counting instruments; drilling equipment; and the below 13 platforms that are planned to be tendered by Pemex between September 2005 thru March 2006.

Perforation Platform Carpa- B
Perforation Platform Lankahuasa-B
Production/Compression Platform Che-2
Living Quarters Platform Nohoch-A
Production-Compression Platforms Che-1
Perforation Platform Ektal-1
Perforation Platform Chuhuk-1
Telecommunications Platform Ektal-2
Production Platform Mision-A
Production Platform Alux-A
Production Platform Ayin-A
Production Platform Ayin-B
Living Quarters Platform Akal-J

With regards to the Federal Electricity Commission (CFE), it is estimated by high ranking officials of SENER that during 2006 and 2007, CFE will be issuing international tenders to build over 1,400 kilometers of gas pipelines.

SERVICES:

Over 700 oil and gas on and offshore exploration services.

Competition

The main third country competitors are Korea, Taiwan, Canada, and Spain, followed by others. The corresponding percentages are given in Table 2.

The Equipment and Services Market for Exploration Production and Distribution of Oil and Gas

Table 2
Origin of Imports
Market Share (%)

Market share	2003	2004	2005 Estimate
US	58	59	59
Korea	12	12	10
Taiwan	10	9	10
Canada	7	10	10
Spain	7	8	8
Others	6	2	3

Third-country competitors

Third country firms usually have a representative in Mexico or have a strategic alliance with a local oil and gas firm. They have actively promoted their interests during the last five years by participating in trade shows and technical seminars in Mexico's leading oil and gas cities. When shows and seminars are held in their countries, they may invite government officials and potential representatives to participate with all expenses paid. These visits include tours of research institutions that many times result in cooperation agreements, exchange of research information, and technical training programs.

End Users

Principal Government Sector End-users:

Pemex is the major consumer of exploration, production and distribution of oil and natural gas equipment and services.

CFE, will tender over 1,400 kilometers of new gas pipelines from 2006-2007

Private sector End-users

MSCs firms by blocks: Repsol-YPF, Reynosa-Monterrey block; Petrobras, Teikoku, and Grupo Diavaz, Cuervito and Fronterizo blocks; Industrial Perforadora de Campeche, Technic, and Tecpetrol, Mision block; Lewis Energy Group, Olmos block.

Platform Builders: C-Bay; ICA/Fluor Daniel; Construcciones Mecanicas Monclova; SWECOMEX/Grupo Condumex; BOSNOR; Construccio, Ingenieria y Montaje Integral; SHAW Global Energy; Dragados Offshore; Construcciones y Equipos Latinoamericanos; Keppel Offshore/Gulf Island/SLP Engineering; UPSTREAM Engineering Lld; and Berry Contracting LP/Berry GP/Inelectra.

The Equipment and Services Market for Exploration Production and Distribution of Oil and Gas

Market Access

There are no barriers for importing oil and gas equipment. However, the Mexican import law is very strict on the required documentation. While it is not required, it may be advantageous when selling equipment to use a reputable customs broker to properly prepare the paperwork needed. The basic documents required to import oil and gas equipment into Mexico include:

- 1) Import petition.
- 2) NAFTA Certificate of origin.
- 3) Commercial bill.
- 4) Insurance and freight bills.

The products qualifying as North American must use the NAFTA Certificate of Origin in order to receive preferential treatment. The exporter or broker may issue such a certificate. It does not have to be validated or formalized. Other entities that may issue a Certificate of Origin include government agencies, producers, exporters, industrial and commercial chambers of commerce, and associations that are legally authorized in the United States. Like the U.S., Mexico uses the Harmonized Tariff System (H.S.). However, Mexico uses only eight digits while the U.S. uses up to ten digits. The first six digits used under the HS system are identical for all countries, the rest may vary.

Table 3 shows the import duties assessed on some exploration, production and distribution of oil and gas equipment.

Table 3

Import Duties for selected Exploration, Production and Distribution of Oil and Gas Equipment

Harmonized System Number	Product	NAFTA Tariff Reduction Schedule	Current Import Duties N/O*
7304.1002	Steel pipe for oil and gas	C	0/2
7304.1099	Other pipe for oil	C	0/15
8413.8201	Pneumatic Power Engines	B	0/10
9026.10.03	Instruments for Measuring or Checking the Flow or Level of Liquids	C	0/15
8430.4940	Offshore oil drilling and production platforms	A	0/12
8430.4980	Boring or Sinking Machinery for oil well and field drilling	A	0/12
8428.9080	Oil Field Machinery for Lifting or	A	0/15

The Equipment and Services Market for Exploration Production and Distribution of Oil and Gas

	Handling/loading or unloading machinery		
84134.11	Pumps for Dispensing Fuel or Lubricants	A	0/15
8413.19	Pumps Fitted or Designed to be fitted with a Measuring Devise	A	0/15
8413.20	Hand Pups	B	0/15
3917.40013	Plastic Fittings	B	0/15
7304.5107	Boiler Piping	B	0/15
7306.1001	Line pipe for oil and gas pipelines	C	0/15
7307.1199	Cast iron pipe fittings	C	0/15
7307.07.1904	Nozzles	C	0/30

*In the 4th column it shows import duties for products from NAFTA (N) and non-NAFTA countries (O). Example 0/2, column shows import duties for products imported from NAFTA countries (0) and with which Mexico has no free trade agreement (2).

Category A: Duties on U.S. products were fully eliminated on January 1, 1994.

Category B: Duties on U.S. products were fully eliminated on January 1, 1998.

Category C: Duties on U.S. products were fully eliminated on January 1, 2003.

NOMS:

NOM CERTIFICATION: (Normas Oficiales Mexicanas - Mexican Official Standards). There are no NOMS applicable for the oil and gas equipment. If companies are interested in participating in the crude oil and natural gas exploration projects, they must consult with the Secretariat for the Environment and Natural Resources (SEMARNAT) in regards to the environmental impact statement study that companies must present before initiating any exploration job.

The Commercial Service of the U.S. Embassy in Mexico City has an officer who follows developments in the standards area:

Louis Santamaria
U.S. Commercial Service - Mexico
Liverpool No. 31
Col. Juárez
06600 México, D.F.
Tel: (011-5255) 5140-2603
Fax: (011-5255) 5566-1115

The Equipment and Services Market for Exploration Production and Distribution of Oil and Gas

E-mail: louis.santamaria@mail.doc.gov

For specific questions on standards in Energy area contact the author of this report.

SERVICES

It is a requirement to be registered as a Mexican firm by Mexico's Construction Chamber of Commerce-CMIC (Camara Mexicana de la Industria de la Construcción) to be authorized to provide engineering services related to the oil and gas industry.

To be authorized by the CMIC firms must present their articles of incorporation as a Mexican firm and engineers must show their Professional License (Cedula Profesional) issued by Mexico's Public Education Secretariat (Secretaria de Educacion Publica). For companies that do not want to open a Mexican firm, it is recommended to form an alliance with a Mexican engineering firm with certified engineers.

PEMEX REQUIREMENTS:

To participate in Pemex tenders, companies must first become registered on Pemex's Equipment and Suppliers list. It is easy to register. International companies are required to register personally or through a local legal representative.

As of May, 2005, a total of 11,000 firms were registered; 10,500 are local firms and 500 international firms. A total of 150 are U.S.; 70 from Canada; 30 from Spain; 20 from Germany; and the rest from Italy, Brazil, Venezuela, Argentina and Japan.

The Following are the basic steps to register:

a) Companies can begin the process by contacting by e-mail Pemex's Suppliers Registration Coordination Area (sipc@dca.pemex.com) or by filling out an application at Pemex's internet site (www.pemex.com) or getting the application directly at Pemex' building. Address: Av. Marina Nacional 329, Edificio A, Piso 2, Col. Huasteca, 11311 Mexico, D.F., tel. (011-5255) 1944-8087, fax. (011-5255) 1944-9062.

b) The company must present the application with a copy of its articles of incorporation in Spanish, notarized in the locality where the firm has its offices;

c) Companies are responsible for renewing their registration annually;

d) Companies are responsible for reviewing the list of tenders published on Tuesdays and Thursdays in the Mexican Official Gazette (Diario Oficial, www.compranet.gob.mx) and to follow the guidelines and requirements of the tenders for technical and economic proposals.

4) Types of Tenders

National Tenders

- a) are limited to purchases of more than US\$10,256 to US\$153,846;
- b) are limited to participation by Mexican suppliers (U.S. firms with Mexican joint ventures or local representatives/ distributors are considered to be Mexican suppliers;

The Equipment and Services Market for Exploration Production and Distribution of Oil and Gas

- c) must have at least fifty percent local content;
- d) must receive at least three national bid proposals (whether via invitation or public tender), or otherwise must be subject to international bid.

International Tenders

- a) required for purchases above US\$153,846; (under NAFTA, above US\$250,000);
- b) are required whenever Mexican suppliers cannot fill the requirements for a national tender;
- c) are subject to applicable Free Trade Agreements. (Mexico has signed FTA's with the U.S. and Canada, Bolivia, Costa Rica, Colombia, Venezuela, Chile, and with the European Community);
- d) are subject to conditions imposed by international financial institutions when the contracts include credits granted by them (World Bank, Inter-American Development Bank and EximBank); and,
- e) are without any requirement for local content.

Invitational tenders

Pemex is allowed to establish its own parameters. These awards are used for small purchases, and are very much like the sole-source procedure. The threshold for invitational tenders for small purchases is defined annually, typically ranging from US\$833.33 to US\$17,692.00 dollars, for machinery and equipment respectively. They also can use invitational tenders for emergency tenders.

IMPORT DUTIES AND TAXES

According to the 1998 modifications in the Mexican customs law, the participation of a customs broker is not obligatory for imports if all legal and technical requirements are met. In the same change, in order to import some goods, it is now required that the importer be registered as such with the Secretariat of Treasury and Public Credit (Secretaria de Hacienda y Credito Publico-SHCP). The participation of a customs broker is suggested when the exporter is not familiar with the Mexican standards and customs processing procedures.

Almost all exploration, production, and distribution of oil and gas equipment from NAFTA countries are exempt from any import duties. Duty for non-NAFTA countries range from 3 to 15 percent for the same products. For specific tariff information on non-NAFTA rates for the oil and gas industry contact the Commercial Service's Francisco Ceron in Mexico City. His contact information is listed in the end of this report.

A 15 percent Value Added Tax (IVA) is assessed on the cumulative value, consisting of the U.S. plant value (invoice) of the product, plus the inland U.S. freight charges, any other costs listed separately on the invoice such as export packing plus the duty. The importer will pay other IVA fees for such services as the inland Mexico freight and warehousing. The IVA tax is only 10 percent for border area destinations. The IVA is recovered at the point of sale.

The following example shows the difference in import costs for a NAFTA firm versus a non-NAFTA firm. The example also shows the effect of the 15 percent VAT on the final import price versus a non-NAFTA manufacturer's price.

The Equipment and Services Market for Exploration Production and Distribution of Oil and Gas

Direct Import Cost Template

	US Firm	Non-NAFTA Firm
Base Price	\$100.00	\$100.00
Freight (estimated 8.0%)	8.00	8.00
Insurance (1.5% of C&F)	1.62	1.62
Dutiable base =CIF	109.62	109.62
Ad Valorem Duty (3.0%)	0	3.29
Value Added Tax (15.0%)	16.44	16.94
Total	\$126.06	\$129.85
Port Costs (Unloading, storage, Est 6.0% CIF)	7.56	7.79
Freight forwarder fee (Est. 1.5% CIF)	1.64	1.64
Bank charges (2.0% of FOB price)	2.00	2.00
GRAND TOTAL	\$137.26	\$141.28

Note:

As of July 1, 1999 NAFTA originating goods are no longer subject to the 0.8% customs processing fee. A NAFTA certificate of origin is needed to take advantage of this exemption.

Temporary import permits are issued by the Mexican Economy Secretary (Secretaria de Economia) to Mexican importers to carry out projects with the Federal and state potable water resources agencies or private sector clients. Permits can be issued for a maximum period of six months. Oil and Gas industry equipment imported under a temporary import permit do not pay the value added tax.

CERTIFICATE OF ORIGIN: A certificate of origin is required from all foreign suppliers or exporters. If the product qualifies as North American in content, the exporter must use the NAFTA Certificate of Origin in order to benefit from preferential treatment under NAFTA. This is the responsibility of the exporter and the forms are available from the U.S. Customs Service, freight forwarders, or local U.S. Chambers of Commerce. The certificate should contain at least the following:

- Name of Exporter
- Name of Producer
- Tariff Classification of Product
- Description of Goods (similar to invoice)
- Number of the Official Invoice

FREE SALE CERTIFICATE: This certificate is required for all products entering Mexico. This certificate proves that the imported goods are also sold in the country of origin. A letter from the local Chamber of Commerce is sufficient proof and the importer would present it at the time of importation.

LABELING REQUIREMENTS: According to Mexico's Federal Law on Metrology and Standardization, oil and gas equipment sold in Mexico are exempted from having a label in Spanish affixed to each. Listing the required information in Spanish on the shipping container will satisfy the labeling requirement. The Spanish information

The Equipment and Services Market for Exploration Production and Distribution of Oil and Gas

on the box must contain, at a minimum, the following information:

- Name and address of the importer
- Importer's Ministry of Finance Taxation Number (RFC number and/or their Industry Association registration number)
- Exporter's name and address
- Trademark or commercial brand name of the product
- Product description whenever the product is packed in such a form that it is not visible
- Use, handling, and care instructions for the product, as required
- Country of origin
- Warnings or precautions on hazardous products
- Size, if applicable, Mexico's Federal Law on Metrology and Standardization stipulates that all weights and measures must be in the metric system

Market Entry

Oftentimes, the decision to select a hazardous industrial waste equipment and services provider depends on the demonstrated commitment to service after the sale has been made. This has been the most effective tool that third country manufacturers have used to penetrate the market. They offer to have their maintenance personnel at the clients' facilities in no more than 48 hours after a service call is made. The availability of required spares is the natural complement to the presence of their technicians.

Customers in the hazardous industrial waste equipment and services are demanding uniform quality control, compliance with international standards, productivity, lower production costs, just-in-time deliveries and above all, reliable local service and maintenance programs. This last factor has become, in many instances, even more important than pricing or financing in the hazardous industrial waste equipment purchasing decision.

Opportunities for Profile Building

U.S. firms wishing to promote their products and/or services to Mexican representatives and/or buyers can do so by participating in the trade exhibitions program of Commercial Service Mexico, held annually in Mexico through privately held exhibitions and/or seminars.

Advertisements in specialized magazines are very effective, especially in publications distributed to members of associations or distributed to large potential end-users, equipment distributors, contractors, and government officials. Important magazines are:

ENERGIA HOY

Circulation: 15,000

Periodicity: Monthly

Website: www.energiahooy.com

EL MUNDO DEL PETROLEO

Circulation: 10,000

The Equipment and Services Market for Exploration Production and Distribution of Oil and Gas

Periodicity: Bimonthly

Website: www.elmundodelpetroleo.com

Upcoming Trade Shows

1. Name of Event: Mexico Oil and Gas 2005

Date of Event: November 8-10, 2005

Location: Villahermosa, Tabasco

Venue: Parque Tabasco, Villahermosa

Frequency of Event: Annual

2. Name of Event: 7th International Oil and Gas Conference and Exhibition

Date of Event: November 9-11, 2005

Location: Merida, Yucatan

Venue: Convention Center of Merida, Yucatan

Frequency of Event: Biannual

KEY CONTACT: For further information, please contact.

Francisco Ceron

U.S. Commercial Service Mexico City

Phone 011(52-55) 5140-2640

Fax 011 (52-55) 5566-1111

e-mail: francisco.ceron@mail.doc.gov

USEFUL websites on the industry:

Secretary of Energy: <http://www.sener.gob.mx>

PEMEX: <http://www.pemex.gob.mx>

CFE: <http://www.cfe.gob.mx>